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E.O. 12958: DECL: 12/17/2017
TAGS: EPET PGOV PREL EFIN BO RS
SUBJECT: PUTIN IN MINSK: MORE OR LESS THAN MEETS THE EYE?

REF: A. MINSK 003

¶B. MINSK 935
¶C. MINSK 681

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

Summary

¶1. (C) After Putin's December 13-14 visit to Minsk, Belarus appears to have secured attractive loan terms and a lower than expected gas price increase beginning in January 2008. Lukashenko did not appear particularly pleased, however, suggesting that Putin presented unattractive conditions to the Belarusian dictator behind closed doors. Even if the loan and relatively low price come to pass with no strings attached, Lukashenko still faces tough economic choices ahead. End summary.

Economic Pronouncements Sound Good for Belarus
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¶2. (U) On December 14, Putin told reporters that Russia would stick to the previously agreed upon formula for gas prices for Belarus (ref A), which Russian Ambassador Surikov previously said would result in gas prices of about USD 125/tcm for 2008 (ref B). Gazprom's spokesman December 15 said for the first quarter the company would charge Belarus USD 119/tcm. Furthermore, Putin finally brought news that Russia would approve Belarus' request for a loan. While Surikov earlier suggested Russia would not issue the loan at below market rates (ref B), a spokesman for the Union State Council of Ministers said Russia would charge Belarus just LIBOR plus 0.75% over 15 years, a rate close to what Belarus requested (ref C), and give Minsk a five-year grace period.

What Did They Talk About for Four Hours?

¶3. (C) Yelena Rakova, Economist for the Institute for Privatization and Management, said that on the surface the agreement seemed favorable for Belarus. However, she added that Putin and Lukashenko met for a long time behind closed doors and that Lukashenko did not look pleased in the press conference. She also feared the offer of USD 119/tcm price for the first quarter (as opposed to previous agreements for a year or more) might presage an increase after Russian presidential elections. Mises Research Center Director Yaroslav Romanchuk said there was definitely a hidden agreement, and both the failure to sign documents on 2008 gas prices or the credit in Minsk, and the offer of a quarterly

agreement for gas prices mean Moscow wants to make sure Minsk upholds its side of the as-yet-unknown bargain.

Russia Opts for a Waiting Game

¶4. (C) Romanchuk suggested that the relatively modest gas price increase and the credit, if granted, would represent a change in Moscow's tack. Whereas before the Kremlin sought to push Lukashenko toward market reforms, now the GOR hopes to encourage the GOB and Belarusian businesses to increase their debt to Russia and Russian banks. Romanchuk said that Putin did not have a strong enough hand to deal with the Lukashenko problem now, but was trying to ensure that Russia could buy its way into Belarus to pressure the dictator by ¶2011.

Comment: Room to Breathe, but Dependent on Moscow's Oxygen
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¶5. (C) Even if there are no hidden economic costs resulting from Putin and Lukashenko's discussions, and Gazprom will not raise the proposed USD 119/tcm price after the first quarter, Belarus still faces difficult challenges. Even after the USD 1.5 billion credit and the scheduled USD 625 million payment from Gazprom for a further 12.5 percent of Beltransgaz shares, Belarus will still be out over USD 440 million for gas payments in 2008. Lukashenko will once again face the choice of privatizing an attractive firm and ceding some economic control or risking his popularity by passing on costs to the population.
STEWART